

Message Text

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TO SECSTATE WASHDC 4157

INFO TREASURY DEPT WASHDC PRIORITY

C O N F I D E N T I A L MEXICO 4650

E.O. 11652: GDS

TAGS: EFIN MX

SUBJECT: FEDERAL RESERVE SWAP

REFS: (A) STATE 85191; (B) MEXICO 4435; (C) MEXICO 4503;
(D) MEXICO 4537; (E) STATE 83542.

1. REFERENCE A ASKS ABOUT QUOTE REAL ESTATE PROFITEERING UNQUOTE. WE BELIEVE IT LIKELY THAT REFERENCE WAS TO PROPOSED HUMAN SETTLEMENTS LAW (SEE REF B AND C). THIS HAS CAUSED CONSIDERABLE CONCERN AMONG PRIVATE SECTOR AND PROBABLY HAS PRECIPITATED CAPITAL FLIGHT. PUBLIC FUROR OVER PROPOSED LAW BEGAN ABOUT MARCH 25 OR 26. RESERVES (GOLD, SILVER, FOREIGN EXCHANGE, SDRS AND IMF GOLD TRANCHE) WERE \$1,645.0 MILLION AS OF MARCH 26, \$36 MILLION ABOVE YEAR-END FIGURE. RESERVE FIGURE, PLUS STRONG ANTI-DEVALUATION STATEMENTS, WERE IN SPEECHES OF BANK OF MEXICO DIRECTOR GENERAL AND FINANCE MINISTER ON MARCH 29 AT BANKERS CONVENTION. PRESUMABLY HEAVY CAPITAL FLIGHT BEGAN AFTER MARCH 26.

2. A LESS LIKELY POSSIBILITY IS THAT REAL ESTATE PROFITEERING REFERS TO WHAT WE SUSPECT TO BE THE RATHER HEAVY PURCHASES OF REAL ESTATE IN THE U.S. BY MEXICAN CITIZENS. THIS IS BEING DONE AS A HEDGE AGAINST DEVALUATION, FOR INVESTMENT PURPOSES, AND ALSO TO PROVIDE FOR FINANCIAL SECURITY AND A HOME SHOULD THE
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POLITICAL SITUATION IN MEXICO DETERIORATE FURTHER FOR

THE PRIVATE SECTOR. THIS HAS BEEN AN ON-GOING PHENOMENON WHICH MAY HAVE INTENSIFIED AND WAS ATTACKED IN PUBLIC RECENTLY BY PRESIDENT ECHEVERRIA (SEE REF D).

3. LAST DEVALUATION, IN 1954, TOOK PLACE ON SATURDAY BEFORE EASTER. CAPITAL FLIGHT EVERY HOLY WEEK HAS SINCE BECOME TRADITIONAL. WE WOULD HAVE THOUGHT STRONG STATEMENTS BY SENIOR OFFICIALS AT BANKERS CONVENTION WOULD HAVE QUIETED FEARS SOMEWHAT THIS YEAR. THEREFORE, WE SUSPECT THAT FUROR OVER HUMAN SETTLEMENTS LAW MAIN FACTOR IN CAPITAL OUTFLOW. TO DEGREE THIS IS TRUE, IT IS UNLIKELY THAT CAPITAL REFLOW FOLLOWING EASTER WILL MATCH OUTFLOW UNLESS GOM RETRACTS ON PROPOSED HUMAN SETTLEMENTS LAW, AND THIS IS VERY UNLIKELY.

4. AN INDICATION OF MEXICAN CONCERN OVER DEVALUATION RUMORS IS AN ARTICLE WHICH APPEARED IN MOST MEXICAN NEWSPAPERS APRIL 9, SUMMARIZING RECENT WORLD BANK REPORT ON MEXICO. ARTICLE APPEARS TO HAVE BEEN PREPARED BY BANK OF MEXICO AND INTERPRETS WORLD BANK REPORT AS HIGHLY LAUDATORY OF MEXICO'S ABILITY TO COPE SUCCESSFULLY WITH ITS ECONOMIC PROBLEMS AND MAINTAIN ITS HIGH PRESTIGE IN INTERNATIONAL FINANCIAL MARKETS. BANK OF MEXICO OFFICIAL TOLD FINATT SEVERAL DAYS AGO THAT GOM CONCERNED NOT SO MUCH ABOUT CRITICAL NATURE OF WORLD BANK REPORT AS IT IS ABOUT WIDE CIRCULATION REPORT GETS. APPARENTLY PRIVATE BANKS IN MEXICO ARE ABLE TO GET COPIES. TODAY'S NEWSPAPER ARTICLE APPEARS TO BE AN ATTEMPT TO OFFSET ANY STORIES OR RUMORS THAT MIGHT APPEAR REGARDING WHAT WE INTERPRET AS A RATHER CRITICAL REPORT. WE HAVE ALSO NOTED, AS UNDOUBTEDLY HAVE THE MEXICANS, CRITICAL ARTICLES SUGGESTING A DEVALUATION IN U.S. FINANCIAL PRESS.

5. ANOTHER DISTURBING FACTOR IS SEC BULLETIN (REF E). FINANCE MINISTER BETETA ISSUED STATEMENT TO EFFECT THAT MEXICAN BANKS ARE NOT BEING BLACK-LISTED, BUT ONLY FAILED TO REGISTER. WHILE DAMAGE MAY NOT BE GREAT, SEC ANNOUNCEMENT WILL UNDOUBTEDLY ADD TO UNCERTAINTY PRESENTLY PREVAILING.

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